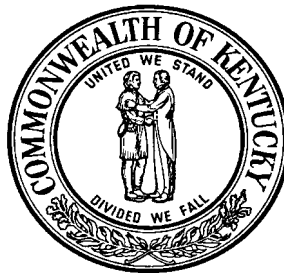


**REPORT OF THE AUDIT OF THE  
FORMER ELLIOTT COUNTY  
CLERK**

**For The Period January 1, 2009  
Through April 30, 2009**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
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## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE FORMER ELLIOTT COUNTY CLERK**

**For The Period January 1, 2009  
Through April 30, 2009**

The Auditor of Public Accounts has completed the former Elliott County Clerk's audit for the period January 1, 2009 through April 30, 2009 and has issued a qualified opinion because the auditor's had to prepare the financial statement, due to the former County Clerk not providing a financial statement.

#### **Financial Condition:**

The current audit is for a four-month period, whereas the prior year audit covered an entire calendar year. Excess fees increased by \$43,935 from the prior year, resulting in excess fees of \$51,318 as of April 30, 2009. Revenues decreased by \$574,332 from the prior year and expenditures decreased by \$618,267.

#### **Report Comments:**

- |         |   |
|---------|---|
| 2009-01 | The Former County Clerk Did Not Make Final Settlement Of Her Accounts   |
| 2009-02 | The Former County Clerk Should Eliminate The \$10,977 Deficit In Her 2009 Fee Account   |
| 2009-03 | The Former County Clerk Owes \$3,453 Of Withholdings To Taxing Authorities  |
| 2009-04 | The Former County Clerk Should Have Complied With The County Payroll Ordinance And Should Have Maintained Proper Payroll Records And Timesheets |
| 2009-05 | The Former County Clerk Should Resolve Deficits In Prior Year Fee Accounts  |
| 2009-06 | The Former County Clerk Should Have Prepared Franchise Tax Bills  |
| 2009-07 | The Former County Clerk Should Have Prepared Delinquent Tax Reports   |
| 2009-08 | The Former County Clerk Should Have Prepared And Submitted A Budget And Should Have Submitted Deputy Salaries For Fiscal Court Approval         |
| 2009-09 | The Former County Clerk Should Have Properly Prepared Financial Reports   |
| 2009-10 | The County Clerk's Office Should Improve Internal Control Procedures Related To Financial Reporting   |
| 2009-11 | The Former County Clerk's Office Did Not Maintain Adequate Internal Control Procedures Related To Office Operations                             |

#### **Deposits:**

The former County Clerk's deposits were insured and collateralized by bank securities.



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### APPENDIX A - FORMER COUNTY CLERK'S RESPONSES





**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable David Blair, Elliott County Judge/Executive  
The Honorable Reeda Ison, Former Elliott County Clerk  
The Honorable Shelia Blevins, Elliott County Clerk  
Members of the Elliott County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the former County Clerk of Elliott County, Kentucky, for the period January 1, 2009 through April 30, 2009. This financial statement is the responsibility of the former County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The former County Clerk did not provide financial statements or receipts and disbursements ledgers summarizing financial transactions of her office. Auditors have used source documents (daily checkout sheets and cancelled checks) to prepare the financial statement.

In our opinion, except for any matters mentioned above that might affect the financial statement, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the former County Clerk for the for the period January 1, 2009 through April 30, 2009, in conformity with the regulatory basis of accounting described in Note 1.

Our audit was conducted for the purpose of forming an opinion on the financial statement taken as a whole. The schedule of excess of liabilities over assets is presented for purposes of additional analysis and is not a required part of the financial statement. Such information has been subjected to auditing procedures applied in the audit of the financial statement and, in our opinion, is fairly stated in all material respects in relation to the financial statement taken as a whole.



The Honorable David Blair, Elliott County Judge/Executive  
The Honorable Reeda Ison, Former Elliott County Clerk  
The Honorable Shelia Blevins, Elliott County Clerk  
Members of the Elliott County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated July 30, 2009 on our consideration of the former Elliott County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- 2009-01 The Former County Clerk Did Not Make Final Settlement Of Her Accounts
- 2009-02 The Former County Clerk Should Eliminate The \$10,977 Deficit In Her 2009 Fee Account
- 2009-03 The Former County Clerk Owes \$3,453 Of Withholdings To Taxing Authorities
- 2009-04 The Former County Clerk Should Have Complied With The County Payroll Ordinance And Should Have Maintained Proper Payroll Records And Timesheets
- 2009-05 The Former County Clerk Should Resolve Deficits In Prior Year Fee Accounts
- 2009-06 The Former County Clerk Should Have Prepared Franchise Tax Bills
- 2009-07 The Former County Clerk Should Have Prepared Delinquent Tax Reports
- 2009-08 The Former County Clerk Should Have Prepared And Submitted A Budget And Should Have Submitted Deputy Salaries For Fiscal Court Approval
- 2009-09 The Former County Clerk Should Have Properly Prepared Financial Reports
- 2009-10 The County Clerk's Office Should Improve Internal Control Procedures Related To Financial Reporting
- 2009-11 The Former County Clerk's Office Did Not Maintain Adequate Internal Control Procedures Related To Office Operations

This report is intended solely for the information and use of the former County Clerk and Fiscal Court of Elliott County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen  
Auditor of Public Accounts

July 30, 2009



ELLIOTT COUNTY  
 REEDA ISON, FORMER COUNTY CLERK  
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Period January 1, 2009 Through April 30, 2009

Revenues

State - Revenue Supplement	\$	57,376
----------------------------	----	--------

Licenses and Taxes:

Motor Vehicle-

Licenses and Transfers	\$	62,332
Usage Tax		57,645
Tangible Personal Property Tax		121,078

Other-

Marriage Licenses		248
Deed Transfer Tax		1,886
Delinquent Tax		669
		243,858

Fees Collected for Services:

Recordings-

Deeds, Easements, and Contracts		1,483
Real Estate Mortgages		1,720
Chattel Mortgages and Financing Statements		4,025
Powers of Attorney		109
All Other Recordings		2,076

Charges for Other Services-

Copywork		268
		9,681

Other:

Miscellaneous		1,388
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Interest Earned		27

Total Revenues		312,330

The accompanying notes are an integral part of this financial statement.

ELLIOTT COUNTY  
 REEDA ISON, FORMER COUNTY CLERK  
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS  
 For The Period January 1, 2009 Through April 30, 2009  
 (Continued)

Expenditures

Payments to State:

Motor Vehicle-

Licenses and Transfers \$ 44,288

Usage Tax 57,823

Tangible Personal Property Tax 43,446

Licenses, Taxes, and Fees-

Legal Process Tax 1,154

Affordable Housing Trust 3,054 \$ 149,765

Payments to Fiscal Court:

Tangible Personal Property Tax 15,481

Deed Transfer Tax 1,812 17,293

Payments to Other Districts:

Tangible Personal Property Tax 58,056

Operating Expenditures:

Personnel Services-

Deputies' Salaries 12,304

Employee Benefits-

Employer's Paid Health Insurance 3,421

Materials and Supplies-

Office Supplies 111

Other Charges-

Postage 471

Miscellaneous 3,211

Telephone 224 19,742

Total Expenditures (carried forward) \$ 244,856

The accompanying notes are an integral part of this financial statement.

ELLIOTT COUNTY  
 REEDA ISON, FORMER COUNTY CLERK  
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS  
 For The Period January 1, 2009 Through April 30, 2009  
 (Continued)

Expenditures (Continued)

Total Expenditures (brought forward)	\$	244,856
Less: Disallowed Expenditures		
2008 Affordable Housing Trust	\$	(1,788)
2008 Miscellaneous Payment		(2,049)
Deputy Salary Overpayment		(1,167)
County Clerk's Salary Overpayment		(2,861)
Undocumented Expenditures		<u>(111)</u>
Total Disallowed Expenditures		<u>(7,976)</u>
Total Allowable Expenditures		<u>236,880</u>
Net Revenues		75,450
Less: Statutory Maximum		<u>22,932</u>
Excess Fees		52,518
Less: Expense Allowance		<u>1,200</u>
Excess Fees Due County for 2009	\$	<u><u>51,318</u></u>

The accompanying notes are an integral part of this financial statement.

ELLIOTT COUNTY  
NOTES TO FINANCIAL STATEMENT

April 30, 2009

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Clerk as determined by the audit. KRS 64.152 requires the County Clerk to settle excess fees with the fiscal court by March 15 each year.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting, revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive), at April 30 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for services performed during the period January 1, 2009 through April 30, 2009
- Reimbursements for January 1, 2009 through April 30, 2009 activities
- Payments due other governmental entities for April tax and fee collections and payroll
- Payments due vendors for goods or services provided during the period January 1, 2009 through April 30, 2009

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year. The Schedule Of Excess Of Liabilities Over Assets is included as a supplemental schedule.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

ELLIOTT COUNTY  
NOTES TO FINANCIAL STATEMENT  
April 30, 2009  
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 13.50 percent for the first six months and 16.17 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The former Elliott County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the County Clerk's deposits may not be returned. The former Elliott County Clerk does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of April 30, 2009, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

ELLIOTT COUNTY  
NOTES TO FINANCIAL STATEMENT  
April 30, 2009  
(Continued)

Note 4. Leases

On April 29, 2008 the Office of the County Clerk entered into a lease agreement with Cannon Financial Services for a copier. The lease agreement requires monthly payments of \$223 for 60 months. As of April 30, 2009, the Office of the County Clerk was not in substantial compliance with terms of the lease agreement. The lease balance at April 30, 2009 was \$11,864.

Note 5. Subsequent Events

On April 30, 2009, Reeda Ison resigned her position as County Clerk of Elliott County. On May 26, 2009, Ms. Ison pled guilty to 20 counts of misapplication of entrusted property and 20 counts of official misconduct. Ms. Ison was sentenced to pay restitution of \$27,964 and twelve months imprisonment, amended to supervised probation on the condition that Ms. Ison follow the terms of her plea. Ms. Ison was also barred from holding any public office.

ELLIOTT COUNTY  
 REEDA ISON, FORMER COUNTY CLERK  
SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS - REGULATORY BASIS

April 30, 2009

Assets

Cash in Bank	\$ 85,782	
Deposits in Transit	<u>16</u>	
Total Assets		\$ 85,798

Liabilities

Paid Obligations:

Outstanding Checks	\$ 7,805	
US Treasury-		
Federal Tax Withholdings	1,018	
State Treasurer-		
Motor Vehicle Licenses	3,648	
Legal Process Tax	298	
Tangible Personal Property Tax-		
Kentucky Revenue Cabinet	10,645	
Elliott County Fiscal Court	3,764	
Elliott County Health District	576	
Elliott County Extension District	768	
Elliott County Ambulance District	1,921	
Elliott County Board of Education	10,850	
Taxpayer Refund	<u>711</u>	
Total Paid Obligations		\$ 42,004

Unpaid Obligations:

Elliott County Fiscal Court-		
Excess Fees	51,318	
US Treasury-		
Federal Tax Withholdings	947	
State Treasurer-		
State Tax Withholdings	1,859	
Retirement Withholdings	<u>647</u>	
Total Unpaid Obligations		<u>54,771</u>
Total Liabilities		<u>96,775</u>
Total Fund Deficit as of April 30, 2009		<u><u>\$ (10,977)</u></u>

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable David Blair, Elliott County Judge/Executive  
The Honorable Reeda Ison, Former Elliott County Clerk  
The Honorable Shelia Blevins, Elliott County Clerk  
Members of the Elliott County Fiscal Court

**Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards**

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the former Elliott County Clerk for the period January 1, 2009 through April 30, 2009, and have issued our report thereon dated July 30, 2009, wherein we issued a qualified opinion because the auditors had to prepare the financial statement from source documents, due to the former County Clerk not providing financial statements. The County Clerk's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the former Elliott County Clerk's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the former County Clerk's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the former County Clerk's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiencies described in the accompanying comments and recommendations as items 2009-10 and 2009-11 to be significant deficiencies in internal control over financial reporting.



Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiencies described above to be material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the former Elliott County Clerk's financial statement for the period January 1, 2009 through April 30, 2009, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations as items 2009-01, 2009-02, 2009-03, 2009-04, 2009-05, 2009-06, 2009-07, 2009-08, and 2009-09.

The former Elliott County Clerk's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the former County Clerk's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Elliott County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen  
Auditor of Public Accounts

July 30, 2009

## COMMENTS AND RECOMMENDATIONS



ELLIOTT COUNTY  
REEDA ISON, FORMER COUNTY CLERK  
COMMENTS AND RECOMMENDATIONS

For The Period January 1, 2009 Through April 30, 2009

STATE LAWS AND REGULATIONS:

2009-01 The Former County Clerk Did Not Make Final Settlement Of Her Accounts

KRS 64.830 states any outgoing county official, as soon as his successor has been qualified and inducted into office, shall immediately vacate his office, deliver to his successor all books, papers, records and other property held by virtue of his office, and make a complete settlement of his accounts as county official. Former County Clerk Reeda Ison resigned from office on April 30, 2009. However, the former County Clerk did not deliver to her successor all books, papers, records and other property held by virtue of her office and did not complete a settlement of her accounts. The former County Clerk did not prepare Tangible Personal Property Tax Reports or Legal Process Tax Reports for the month of April, License Fee Reports for the weeks of April 20<sup>th</sup> and April 27<sup>th</sup>, and Delinquent Tax Reports for the months of January and March. The former County Clerk did not pay all outstanding liabilities of her account and did not prepare a financial statement summarizing transactions of her account.

Subsequently, on July 2, 2009, the former County Clerk signed over access to her bank accounts to the Elliott County Fiscal Court and turned over all records and property held by virtue of her office. However, the former County Clerk did not make a complete settlement of her accounts. In order to complete a settlement for the former County Clerk, the fiscal court placed all funds in an escrow account and the current County Clerk prepared reports for Tangible Personal Property Taxes, Legal Process Taxes, and License Fees. The fiscal court paid amounts due districts as stated on these reports. Delinquent Tax reports for January and March have not been prepared because the current county clerk is researching collections to determine amounts to be paid to districts. The fiscal court will pay Delinquent Taxes upon receipt of Delinquent Tax reports. We recommend the fiscal court use funds in the escrow account to pay any other outstanding liabilities of the former County Clerk. Any funds remaining in the escrow account after paying liabilities may be turned over to the fiscal court as excess fees.

*Former County Clerk Reeda Ison's Response:* We have included the former County Clerk's responses as Appendix A with this report.

ELLIOTT COUNTY  
 REEDA ISON, FORMER COUNTY CLERK  
 COMMENTS AND RECOMMENDATIONS  
 For The Period January 1, 2009 Through April 30, 2009  
 (Continued)

STATE LAWS AND REGULATIONS: (Continued)

2009-02 The Former County Clerk Should Eliminate The \$10,977 Deficit In Her 2009 Fee  
Account

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The former County Clerk has a deficit of \$10,977 in her official account as of April 30, 2009. This deficit is primarily due to disallowed expenditures. Test procedures revealed \$7,976 in expenditures not considered allowable expenses of a County Clerk's office. In Funk v. Milliken, 317 S. W. 2d 499 (Ky. 1958), Kentucky's highest court ruled that county fee officials' expenditures of public funds will be allowed only if they are necessary, adequately documented, reasonable in amount, beneficial to the public, and not primarily personal in nature. Additionally, amounts due for prior years should not be paid from the current fee account. Expenditures from the former County Clerk's 2009 fee account not considered allowable:

- \$1,788 for the 2008 affordable housing payment to the State has been disallowed because it is an amount due for a prior year and should not have been paid from the current fee account.
- \$2,049 for a payment to cover a bank overdraft in the 2008 fee account has been disallowed because it is an amount due for a prior year and should not have been paid from the current fee account.
- \$1,167 for 2009 deputy salary has been disallowed because the former County Clerk did not maintain adequate documentation of payroll that would have allowed us to determine the employee was entitled to this payment.
- \$2,861 for 2009 County Clerk salary has been disallowed because the former County Clerk received salary in excess of that allowed by statute.
- \$111 for 2009 operating expenses has been disallowed because the former County Clerk did not maintain adequate documentation that would have allowed us to determine the expenditures were in compliance with Funk v. Milliken.

We recommend the County Clerk's office only expend fees of the office for allowable expenditures. We also recommend the former County Clerk eliminate her deficit by paying personal funds of \$10,977 to the escrow account established by the fiscal court. Once the former County Clerk pays personal funds to the escrow account, we recommend the fiscal court pay any outstanding liabilities still due from the former County Clerk's 2009 account, which includes \$51,318 due the Elliott County Fiscal Court for excess fees, \$947 due the IRS for federal withholdings, \$647 due the Kentucky State Treasurer for state withholdings, and \$1,859 due to the Kentucky Retirement Systems for retirement withheld from employees.

*Former County Clerk Reeda Ison's Response:* We have included the former County Clerk's responses as Appendix A with this report.

*Auditor's Reply:* Our audit documentation supports comments and recommendations included in this report. We stand by amounts reported in our audit. We provided an opportunity for the former County Clerk to meet with us to review the exit conference findings. The former County Clerk declined to meet with us and asked that we mail the exit conference to her.



ELLIOTT COUNTY  
 REEDA ISON, FORMER COUNTY CLERK  
 COMMENTS AND RECOMMENDATIONS  
 For The Period January 1, 2009 Through April 30, 2009  
 (Continued)

STATE LAWS AND REGULATIONS: (Continued)

2009-03 The Former County Clerk Owes \$3,453 Of Withholdings To Taxing Authorities

Payroll testing revealed the former County Clerk did not pay all federal withholdings, state income tax withholdings, and retirement withholdings for calendar year 2009. The former County Clerk also did not pay matching FICA or matching retirement for calendar year 2009. KRS 141.310 directs every employer to deduct and withhold certain amounts from employee pay and KRS 141.330 requires those amounts deducted and withheld to be paid to authorities by the end of the month following the close of each quarter. KRS 141.330(3) states that every employer who fails to withhold or pay withholding to authorities shall be personally and individually liable for amounts withheld. KRS 141.330(4) allows the Commonwealth of Kentucky to place a lien upon all property of any employer who fails to withhold or pay over to authorities sums required to be withheld. Payroll testing indicates the former County Clerk properly deducted and withheld federal withholdings, state income taxes, and retirement. However, all amounts deducted and withheld were not paid to authorities. Furthermore, the former County Clerk did not pay any matching FICA or retirement to authorities. The Elliott County Fiscal Court paid all matching FICA and retirement on behalf of the former County Clerk, but there is no evidence that all amounts deducted and withheld have been paid. The former County Clerk owes \$947 to the IRS for federal withholdings, \$647 to the Kentucky State Treasurer for state income tax withholdings, and \$1,859 to the Kentucky Retirement Systems for payroll retirement withholdings for her office for the period January 1, 2009 through April 30, 2009. We recommend the County Clerk's office pay withholdings in a timely manner as required by statute.

*Former County Clerk Reeda Ison's Response:* We have included the former County Clerk's responses as Appendix A with this report.

*Auditor's Reply:* The former County Clerk's records support our comment that all withholdings have not been paid. Furthermore, the IRS has submitted bills to the Elliott County Fiscal Court indicating the former County Clerk did not pay all amounts due the IRS.

2009-04 The Former County Clerk Should Have Complied With The County Payroll Ordinance And Should Have Maintained Proper Payroll Records And Timesheets

In June 2007, the Elliott County Fiscal Court approved an ordinance requiring the Elliott County Clerk to pay wages for herself and her staff to the Elliott County Fiscal Court so that proper withholdings can be paid to Kentucky Retirement System and to the Internal Revenue Service. The ordinance was effective from and after July 1, 2007. However, the former County Clerk did not comply with the county payroll ordinance. The former County Clerk prepared and paid her own payroll for the period January 1, 2009 through April 30, 2009 and did not submit any reports to the fiscal court. The former County Clerk's failure to comply with the county payroll ordinance and her failure to submit reports to the fiscal court resulted in employer's matching fringe benefits not being paid to authorities.

ELLIOTT COUNTY  
 REEDA ISON, FORMER COUNTY CLERK  
 COMMENTS AND RECOMMENDATIONS  
 For The Period January 1, 2009 Through April 30, 2009  
 (Continued)

STATE LAWS AND REGULATIONS: (Continued)

2009-04 The Former County Clerk Should Have Complied With The County Payroll Ordinance  
 And Should Have Maintained Proper Payroll Records And Timesheets  
 (Continued)

KRS 337.320 requires all employers to keep a record of (a) the amount paid each pay period to each employee and (b) the hours worked each day and each week by each employee. However, the former County Clerk did not maintain proper payroll records. The former County Clerk did not provide evidence of maintaining a record of hours worked each day and each week for all employees. Further, the former County Clerk did not pay all employees' withholdings or employer's matching to authorities. The Elliott County Fiscal Court has subsequently paid employer's matching FICA and retirement. However, all employees' federal tax, state tax, FICA, and retirement withholdings have not been paid.

We recommend the former County Clerk resolve the unpaid employees' withholdings. We recommend the County Clerk's office comply with KRS 337.320 by maintaining proper and complete payroll records. We also recommend the County Clerk's office comply with Elliott County Fiscal Court's payroll ordinance.

*Former County Clerk Reeda Ison's Response:* We have included the former County Clerk's responses as Appendix A with this report.

2009-05 The Former County Clerk Should Resolve Deficits In Prior Year Fee Accounts

Our audits indicate the County Clerk has unresolved deficits in seven of the eight years preceding 2009. The following is a recap of the years and amounts of the deficits, along with a brief description of the causes:

- 2008 - \$13,087, primarily caused by unpaid excess fees due the fiscal court
- 2007 - \$ 5,811, primarily caused by unpaid payroll withholdings
- 2006 - \$14,351, primarily caused by unpaid payroll withholdings
- 2005 - \$ 9,255, primarily caused by unpaid tangible personal property taxes
- 2004 - \$ 6,753, primarily caused by unpaid delinquent property taxes
- 2002 - \$ 9,636, primarily caused by unpaid tangible personal property taxes
- 2001 - \$ 8,476, primarily caused by unpaid tangible personal property taxes

The total of the unresolved deficits is \$67,369 and is owed to the Internal Revenue Service, State, Elliott County Fiscal Court, and other Elliott County taxing districts. The former County Clerk was indicted on 20 charges of official misconduct and 20 charges of misapplication of entrusted property relating to the deficits for 2001 through 2007 and has subsequently pled guilty to all charges. The former County Clerk's guilty plea included an agreement to pay restitution in the amount of \$27,964 covering deficits for calendar years 2001 through 2007. The 2008 deficit was not included in the plea agreement. Restitution has not yet been paid. We recommend the former County Clerk eliminate these deficits by paying restitution to the Attorney General's office as agreed to by court order and by depositing personal funds of \$13,087 to cover the 2008 deficit. We will continue to report on these unresolved deficits until restitution has been paid in full.

ELLIOTT COUNTY  
REEDA ISON, FORMER COUNTY CLERK  
COMMENTS AND RECOMMENDATIONS  
For The Period January 1, 2009 Through April 30, 2009  
(Continued)

STATE LAWS AND REGULATIONS: (Continued)

2009-05 The Former County Clerk Should Resolve Deficits In Prior Year Fee Accounts  
(Continued)

*Former County Clerk Reeda Ison's Response:* We have included the former County Clerk's responses as Appendix A with this report.

*Auditor's Reply:* Our audit documentation supports comments and recommendations included in this report. We stand by amounts reported in our audit. Amounts reported as unpaid for calendar years 2001 through 2005 have been included in each of the published audits for those years.

2009-06 The Former County Clerk Should Have Prepared Franchise Tax Bills

KRS 133.220 notes the County Clerk is the local official responsible for the preparation of property tax bills. KRS 136.180 requires the County Clerk to prepare franchise tax bills and forward the bills to the proper collecting officer. We can find no evidence the former County Clerk prepared franchise tax bills as required by statutes. Franchise taxes were assessed for Elliott County and franchise taxes were collected by the Sheriff's office. However, the Sheriff's office prepared the franchise tax bills. Preparation of franchise tax bills is the responsibility of the County Clerk, as stated above. We recommend the County Clerk's office comply with KRS 133.220 and KRS 136.180 by preparing franchise tax bills and forwarding them to the Sheriff for collection.

*Former County Clerk Reeda Ison's Response:* We have included the former County Clerk's responses as Appendix A with this report.

*Auditor's Reply:* Even though the Sheriff's office has been preparing the bills, per KRS 136.180 it is the responsibility of the County Clerk to prepare franchise tax bills. This comment has been included in each of the published audits since calendar year 2006.

2009-07 The Former County Clerk Should Have Prepared Delinquent Tax Reports

KRS 134.480(c) requires the county clerk pay to the taxing districts all moneys due the taxing districts. The former County Clerk collected delinquent taxes of \$256 during January 2009 and \$404 during March 2009. However, the former County Clerk did not prepare delinquent tax reports for these collections. Delinquent tax payments to the districts are based upon amounts reported on the delinquent tax reports. Since no delinquent tax reports were prepared, the former County Clerk failed to pay delinquent taxes to the districts. We did not determine the amount of delinquent taxes due the districts for these collections because no delinquent tax reports have been prepared. In the absence of delinquent tax reports, we have not booked a liability for amounts due the districts. Since the former County Clerk is no longer in office, the current County Clerk plans to prepare delinquent tax reports for January 2009 and March 2009 so that delinquent taxes can be paid to the taxing districts.

*Former County Clerk Reeda Ison's Response:* We have included the former County Clerk's responses as Appendix A with this report.

ELLIOTT COUNTY  
REEDA ISON, FORMER COUNTY CLERK  
COMMENTS AND RECOMMENDATIONS  
For The Period January 1, 2009 Through April 30, 2009  
(Continued)

STATE LAWS AND REGULATIONS: (Continued)

2009-08 The Former County Clerk Should Have Prepared And Submitted A Budget And Should Have Submitted Deputy Salaries For Fiscal Court Approval

The Department for Local Government (DLG) requires County Clerks to submit a budget for operating expenses and KRS 64.530 requires fiscal courts to approve salary limits for deputies of the County Clerks' offices. However, the former County Clerk did not prepare or submit a budget to DLG and did not submit deputies' salaries to the fiscal court for approval. In the absence of a budget, DLG and the fiscal court cannot monitor spending of the County Clerk's office to determine if spending is reasonable. The former County Clerk could have used a budget as a tool to monitor spending to help avoid having a deficit and to avoid paying County Clerk salary in excess of amounts allowed by law. By monitoring spending, the former County Clerk could have noted that some expenditures were not allowable. We recommend the County Clerk's office prepare and submit a budget and operate within approved budgets or obtain budget amendments as needed.

*Former County Clerk Reeda Ison's Response:* We have included the former County Clerk's responses as Appendix A with this report.

2009-09 The Former County Clerk Should Have Properly Prepared Financial Reports

The Department for Local Government (DLG) requires each County Clerk to submit quarterly reports to DLG by the 30<sup>th</sup> day following the close of each quarter (April 30, July 30, October 30 and January 30). Failure to timely submit quarterly financial reports to DLG could result in a penalty being assessed against the County Clerk. The former County Clerk did not prepare or submit her 1<sup>st</sup> quarterly report to DLG. Furthermore, the former County Clerk did not prepare a financial statement summarizing transactions of her account for the period January 1 through April 30, 2009. We recommend the County Clerk's office take more care in preparing quarterly and annual reports and assure that reports are submitted in a timely manner.

*Former County Clerk Reeda Ison's Response:* We have included the former County Clerk's responses as Appendix A with this report.

ELLIOTT COUNTY  
REEDA ISON, FORMER COUNTY CLERK  
COMMENTS AND RECOMMENDATIONS  
For The Period January 1, 2009 Through April 30, 2009  
(Continued)

INTERNAL CONTROL - MATERIAL WEAKNESSES:

2009-10 The County Clerk's Office Should Improve Internal Control Procedures Related To Financial Reporting

We noted several issues of non-compliances that indicate internal control deficiencies related to financial reporting. For the period January 1 through April 2009, the former County Clerk did not prepare a final settlement, did not properly prepare quarterly financial reports, and did not submit quarterly financial reports to the Department for Local Government (DLG). Furthermore, the former County Clerk did not prepare Tangible Personal Property Tax Reports or Legal Process Tax Reports for the month of April, License Fee Reports for the weeks of April 20<sup>th</sup> and April 27<sup>th</sup>, and Delinquent Tax Reports for the months of January and March. We believe there are adequate internal control procedures to assure accurate preparation and timely submission of financial reports. However, there does not appear to be a sufficient control consciousness within the organization to assure compliance with financial reporting requirements. We have included audit report comments related to financial reporting noncompliances in each audit report since calendar year 1999. However, the former County Clerk has not exercised oversight that would have caused an annual settlement to be prepared and that would have caused the quarterly financial reports to be properly prepared and timely submitted to DLG. We believe the internal control deficiencies related to financial reporting create more than a likely potential for material misstatement of the financial statements. We recommend the County Clerk's office improve internal control procedures related to financial reporting.

*Former County Clerk Reeda Ison's Response:* We have included the former County Clerk's responses as Appendix A with this report.

*Auditor's Reply:* Our audit documentation supports comments and recommendations included in this report. As noted in comment 2009-07, the former County Clerk did collect delinquent taxes during January 2009. As noted in comment 2009-01, KRS 64.830 states any outgoing official shall make a complete settlement of his accounts upon vacation of office.

ELLIOTT COUNTY  
 REEDA ISON, FORMER COUNTY CLERK  
 COMMENTS AND RECOMMENDATIONS  
 For The Period January 1, 2009 Through April 30, 2009  
 (Continued)

INTERNAL CONTROL - MATERIAL WEAKNESSES: (Continued)

2009-11 The Former County Clerk's Office Did Not Maintain Adequate Internal Control  
Procedures Related To Office Operations

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We noted several internal control deficiencies related to the former County Clerk's office operations. We believe these internal control deficiencies create more than a likely potential for material misstatement of the financial statements.

- The internal control structure lacked a proper segregation of duties. There was a limited staff size, which prevented adequate division of responsibilities. The former County Clerk had statutory authority to assume the role as custodian of monetary assets, as well as recorder of transactions and preparer of financial statements.
- The former County Clerk did not routinely compare actual disbursements to the budget.
- The former County Clerk did not maintain sufficient documentation for payroll and operating expenditures.
- The former County Clerk was not sufficiently involved in the day-to-day operations of the office to identify significant departures from established procedures and to exercise adequate oversight of the office.

We recommend the County Clerk's office improve internal control procedures. We present the following suggestions for improvement.

- The County Clerk should recount and deposit cash daily. The County Clerk could document this control process by initialing the deposit ticket.
- The County Clerk should periodically compare a daily bank deposit to the daily checkout sheet and then compare the daily checkout sheet to the receipts ledger. Any differences should be reconciled. The County Clerk could document this by initialing the bank deposit ticket, daily checkout sheet, and receipts ledger.
- The County Clerk should document periodic comparisons of daily AVIS computer totals to receipts for usage tax, license fees, and tangible personal property taxes.
- The County Clerk should document the reconciliation of the bank balance to the general ledger.
- The County Clerk should regularly compare actual disbursements to the budget. Budget amendments should be obtained if necessary.
- The County Clerk should follow control procedures established by the county payroll ordinance.
- The County Clerk should periodically compare expenditures to invoice files to assure that invoice files contain sufficient documentation of operating expenditures.
- The County Clerk should cancel paid invoices to document payment.
- The County Clerk should be involved in the day-to-day operations of the office in order to be able to identify significant departures from established procedures and to exercise adequate oversight of the office.

*Former County Clerk Reeda Ison's Response:* We have included the former County Clerk's responses as Appendix A with this report.

## APPENDIX A - FORMER COUNTY CLERK'S RESPONSES





APA (Rev 11/07)

**Elliott County**  
**Reeda Ison, Former County Clerk**  
**Exit Conference**  
**For the Period January 1, 2009 through April 30, 2009**

Date: July 30, 2009 (date mailed to Mr. Craft)  
 Auditors:  
 Auditees: Reeda Ison, Former County Clerk  
 Mailed to Paul Craft, Attorney for Ms. Ison

During the course of our audit, we have developed the following comments and recommendations for your review. You are not required to respond to the comments and recommendations. However, we recommend that you provide written responses. Please understand that your responses will be printed verbatim in the audit report. You have (15) working days to respond to the comments and recommendations. Please return any written responses to the auditors by Thursday August 20, 2009. Responses postmarked after that date will not be considered for inclusion in the audit report. If you do not return written responses to the auditors, the audit report will read, "The official did not respond."

I. The Former County Clerk Did Not Make Final Settlement Of Her Accounts

KRS 64.830 states any outgoing county official, as soon as his successor has been qualified and inducted into office, shall immediately vacate his office, deliver to his successor all books, papers, records and other property held by virtue of his office, and make a complete settlement of his accounts as county official. Former County Clerk Reeda Ison resigned from office on April 30, 2009. However, the former County Clerk did not deliver to her successor all books, papers, records and other property held by virtue of her office and did not complete a settlement of her accounts. The former County Clerk did not prepare Tangible Personal Property Tax Reports or Legal Process Tax Reports for the month of April, License Fee Reports for the weeks of April 20<sup>th</sup> and April 27<sup>th</sup>, and Delinquent Tax Reports for the months of January and March. The former County Clerk did not pay all outstanding liabilities of her account and did not prepare a financial statement summarizing transactions of her account.

Subsequently, on July 2, 2009, the former County Clerk signed over access to her bank accounts to the Elliott County Fiscal Court and turned over all records and property held by virtue of her office. However, the former County Clerk did not make a complete settlement of her accounts. In order to complete a settlement for the former County Clerk, the fiscal court placed all funds in an escrow account and the current County Clerk prepared reports for Tangible Personal Property Taxes, Legal Process Taxes, and License Fees. The fiscal court paid amounts due districts as stated on these reports. Delinquent Tax reports for January and March have not been prepared because the current county clerk is researching collections to determine amounts to be paid to districts. The fiscal court will pay Delinquent Taxes upon receipt of Delinquent Tax reports. We recommend the fiscal court use funds in the escrow account to pay any other outstanding liabilities of the former County Clerk. Any funds remaining in the escrow account after paying liabilities may be turned over to the fiscal court as excess fees.

Response or Additional Information: *I was having trouble getting* G-1, F-15  
*March to come out and also due to illness.*

SOI: As Referenced

**Elliott County**  
**Reeda Ison, Former County Clerk**  
**Exit Conference**  
**For The Period January 1, 2009 through April 30, 2009**

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**2. The Former County Clerk Should Eliminate The \$10,977 Deficit In Her 2009 Fee Account**

The former County Clerk has a deficit of \$10,977 in her official account as of April 30, 2009. This deficit is primarily due to disallowed expenditures. Test procedures revealed \$7,976 in expenditures not considered allowable expenses of a County Clerk's office. In Funk v. Milliken, 317 S. W. 2d 499 (Ky. 1958), Kentucky's highest court ruled that county fee officials' expenditures of public funds will be allowed only if they are necessary, adequately documented, reasonable in amount, beneficial to the public, and not primarily personal in nature. Additionally, amounts due for prior years should not be paid from the current fee account. Expenditures from the former County Clerk's 2009 fee account not considered allowable:

- \$1,788 for the 2008 affordable housing payment to the State has been disallowed because it is an amount due for a prior year and should not have been paid from the current fee account.
- \$2,049 for a payment to cover a bank overdraft in the 2008 fee account has been disallowed because it is an amount due for a prior year and should not have been paid from the current fee account.
- \$1,167 for 2009 deputy salary has been disallowed because the former County Clerk did not maintain adequate documentation of payroll that would have allowed us to determine the employee was entitled to this payment.
- \$2,861 for 2009 County Clerk salary has been disallowed because the former County Clerk received salary in excess of that allowed by statute.
- \$111 for 2009 operating expenses has been disallowed because the former County Clerk did not maintain adequate documentation that would have allowed us to determine the expenditures were in compliance with Funk v. Milliken.

We recommend the County Clerk's office only expend fees of the office for allowable expenditures. We also recommend the former County Clerk eliminate her deficit by paying personal funds of \$10,977 to the escrow account established by the fiscal court. Once the former County Clerk pays personal funds to the escrow account, we recommend the fiscal court pay any outstanding liabilities still due from the former County Clerk's 2009 account, which includes \$51,318 due the Elliott County Fiscal Court for excess fees, \$947 due the IRS for federal withholdings, \$647 due the Kentucky State Treasurer for state withholdings, and \$1,859 due to the Kentucky Retirement Systems for retirement withheld from employees.

Response or Additional Information: (A) Yes, I did pay the housing fee for 2008 in 2009. (B) Neither I nor my Deputy Clerk remember a overdraft for 2008. (C) The amount shown for Deputy Clerk - she never did receive that amount. Don't know how you came up with it. (D) I don't know how you come up with my salary. (E) Please show me \$111.00 that I misused. I have no idea how you came up with the above totals.

SOF: As Referenced

**Elliott County**  
**Reeda Ison, Former County Clerk**  
**Exit Conference**  
**For The Period January 1, 2009 through April 30, 2009**

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3. The Former County Clerk Owes \$3,453 Of Withholdings To Taxing Authorities

Payroll testing revealed the former County Clerk did not pay all federal withholdings, state income tax withholdings, and retirement withholdings for calendar year 2009. The former County Clerk also did not pay matching FICA or matching retirement for calendar year 2009. KRS 141.310 directs every employer to deduct and withhold certain amounts from employee pay and KRS 141.330 requires those amounts deducted and withheld to be paid to authorities by the end of the month following the close of each quarter. KRS 141.330(3) states that every employer who fails to withhold or pay withholding to authorities shall be personally and individually liable for amounts withheld. KRS 141.330(4) allows the Commonwealth of Kentucky to place a lien upon all property of any employer who fails to withhold or pay over to authorities sums required to be withheld. Payroll testing indicates the former County Clerk properly deducted and withheld federal withholdings, state income taxes, and retirement. However, all amounts deducted and withheld were not paid to authorities. Furthermore, the former County Clerk did not pay any matching FICA or retirement to authorities. The Elliott County Fiscal Court paid all matching FICA and retirement on behalf of the former County Clerk, but there is no evidence that all amounts deducted and withheld have been paid. The former County Clerk owes \$947 to the IRS for federal withholdings, \$647 to the Kentucky State Treasurer for state income tax withholdings, and \$1,859 to the Kentucky Retirement Systems for payroll retirement withholdings for her office for the period January 1, 2009 through April 30, 2009. We recommend the County Clerk's office pay withholdings in a timely manner as required by statute.

Response or Additional Information: <sup>(F-53)</sup> We have tracking records to show  
where the federal taxes were taken out direct from the Clerk's  
account. We mailed in our state withholding every  
month. However we did not mail in the Retirement  
as we had to wait until Judge Exec David Blair  
and fiscal Court past an Ordinance for  
my office to make me a separate entity.  
We ~~was~~ ~~are~~ were also awaiting on our  
County field representative to send us an omitted  
Bill. We never could get that

**Elliott County**  
**Reeda Ison, Former County Clerk**  
**Exit Conference**  
**For The Period January 1, 2009 through April 30, 2009**

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**4. The Former County Clerk Should Have Complied With The County Payroll Ordinance And Should Have Maintained Proper Payroll Records And Timesheets**

In June 2007, the Elliott County Fiscal Court approved an ordinance requiring the Elliott County Clerk to pay wages for herself and her staff to the Elliott County Fiscal Court so that proper withholdings can be paid to Kentucky Retirement System and to the Internal Revenue Service. The ordinance was effective from and after July 1, 2007. However, the former County Clerk did not comply with the county payroll ordinance. The former County Clerk prepared and paid her own payroll for the period January 1, 2009 through April 30, 2009 and did not submit any reports to the fiscal court. The former County Clerk's failure to comply with the county payroll ordinance and her failure to submit reports to the fiscal court resulted in employer's matching fringe benefits not being paid to authorities.

KRS 337.320 requires all employers to keep a record of (a) the amount paid each pay period to each employee and (b) the hours worked each day and each week by each employee. However, the former County Clerk did not maintain proper payroll records. The former County Clerk did not provide evidence of maintaining a record of hours worked each day and each week for all employees. Further, the former County Clerk did not pay all employees' withholdings or employer's matching to authorities. The Elliott County Fiscal Court has subsequently paid employer's matching FICA and retirement. However, all employees' federal tax, state tax, FICA, and retirement withholdings have not been paid.

We recommend the former County Clerk resolve the unpaid employees' withholdings. We recommend the County Clerk's office comply with KRS 337.320 by maintaining proper and complete payroll records. We also recommend the County Clerk's office comply with Elliott County Fiscal Court's payroll ordinance.

Response or Additional Information: <sup>F-53</sup> We took over our payroll after the county changed our method of our payroll date. They had a CPA doing our large payroll for Elliott County from Ashland. They did not get all of Clerk's Salary on the W-2 and she received a 2007 W-2 to be added on as Income in 2008. This was one thing that the Fiscal Court could not control unless we were free paying.

**Elliott County**  
**Reeda Ison, Former County Clerk**  
**Exit Conference**  
**For The Period January 1, 2009 through April 30, 2009**

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5. The Former County Clerk Should Resolve Deficits In Prior Year Fee Accounts

Our audits indicate the County Clerk has unresolved deficits in seven of the eight years preceding 2009. The following is a recap of the years and amounts of the deficits, along with a brief description of the causes:

- 2008 - \$13,087, primarily caused by unpaid excess fees due the fiscal court
- 2007 - \$ 5,811, primarily caused by unpaid payroll withholdings
- 2006 - \$14,351, primarily caused by unpaid payroll withholdings
- 2005 - \$ 9,255, primarily caused by unpaid tangible personal property taxes
- 2004 - \$ 6,753, primarily caused by unpaid delinquent property taxes
- 2002 - \$ 9,636, primarily caused by unpaid tangible personal property taxes
- 2001 - \$ 8,476, primarily caused by unpaid tangible personal property taxes

The total of the unresolved deficits is \$67,369 and is owed to the Internal Revenue Service, State, Elliott County Fiscal Court, and other Elliott County taxing districts. The former County Clerk was indicted on 20 charges of official misconduct and 20 charges of misapplication of entrusted property relating to the deficits for 2001 through 2007 and has subsequently pled guilty to all charges. The former County Clerk's guilty plea included an agreement to pay restitution in the amount of \$27,964 covering deficits for calendar years 2001 through 2007. The 2008 deficit was not included in the plea agreement. Restitution has not yet been paid. We recommend the former County Clerk eliminate these deficits by paying restitution to the Attorney General's office as agreed to by court order and by depositing personal funds of \$13,087 to cover the 2008 deficit. We will continue to report on these unresolved deficits until restitution has been paid in full.

Response or Additional Information: (A) ~~is~~ We had no excess (A-5, A-6, A-13)

- fees in 2008 to be turned over.
- B. 2007 we did not get our check for withholding in Dec. <sup>cancelled</sup>
- (c) 2006 we mailed checks to Charles Pennington, Judge Sec. at the end of each month.
- d) 2005, 2004, 2002, 2001 It is strange that this didn't come up until 2009. We paid in all taxes to all districts.



**Elliott County**  
**Reeda Ison, Former County Clerk**  
**Exit Conference**  
**For The Period January 1, 2009 through April 30, 2009**

B-1 Page 6

**6. The Former County Clerk Should Have Prepared Franchise Tax Bills**

KRS 133.220 notes the County Clerk is the local official responsible for the preparation of property tax bills. KRS 136.180 requires the County Clerk to prepare franchise tax bills and forward the bills to the proper collecting officer. We can find no evidence the former County Clerk is prepared franchise tax bills as required by statutes. Franchise taxes were assessed for Elliott County and franchise taxes were collected by the Sheriff's office. However, the Sheriff's office prepared the franchise tax bills. Preparation of franchise tax bills is the responsibility of the County Clerk, as stated above. We recommend the County Clerk's office comply with KRS 133.220 and KRS 136.180 by preparing franchise tax bills and forwarding them to the Sheriff for collection.

Response or Additional Information: *The Elliott County Sheriff's (C-3) Office had taken care of them ever since I took office. I ask a representative from the District PVG office to show me how and he didn't know himself.*

**7. The County Clerk's Office Should Improve Internal Control Procedures Related To Financial Reporting**

We noted several issues of non-compliances that indicate internal control deficiencies related to financial reporting. For the period January 1 through April 2009, the former County Clerk did not prepare a final settlement, did not properly prepare quarterly financial reports, and did not submit quarterly financial reports to the Department for Local Government (DLG). Furthermore, the former County Clerk did not prepare Tangible Personal Property Tax Reports or Legal Process Tax Reports for the month of April, License Fee Reports for the weeks of April 20<sup>th</sup> and April 27<sup>th</sup>, and Delinquent Tax Reports for the months of January and March. We believe there are adequate internal control procedures to assure accurate preparation and timely submission of financial reports. However, there does not appear to be a sufficient control consciousness within the organization to assure compliance with financial reporting requirements. We have included audit report comments related to financial reporting noncompliances in each audit report since calendar year 1999. However, the former County Clerk has not exercised oversight that would have caused an annual settlement to be prepared and that would have caused the quarterly financial reports to be properly prepared and timely submitted to DLG. We believe the internal control deficiencies related to financial reporting create more than a likely potential for material misstatement of the financial statements. We recommend the County Clerk's office improve internal control procedures related to financial reporting.

Response or Additional Information: *we were out of the office F-22 due to personal illness. Black mold in our office since the 80's. I'm allergic to 6 molds. I didn't get the quarterly done. We had no property tax in Jan. and we could not get to work to come out. I had worked for 2 wks and could find it. I was not told that I needed to do a final settlement*

**Elliott County**  
**Reeda Ison, Former County Clerk**  
**Exit Conference**  
**For The Period January 1, 2009 through April 30, 2009**

B-1 Page 7

**8. The Former County Clerk's Office Did Not Maintain Adequate Internal Control Procedures Related To Office Operations**

We noted several internal control deficiencies related to the former County Clerk's office operations. We believe these internal control deficiencies create more than a likely potential for material misstatement of the financial statements.

- The internal control structure lacked a proper segregation of duties. There was a limited staff size, which prevented adequate division of responsibilities. The former County Clerk had statutory authority to assume the role as custodian of monetary assets, as well as recorder of transactions and preparer of financial statements. *You try to run a office the way I did not*
  - The former County Clerk did not routinely compare actual disbursements to the budget. *we gave you our payroll book*
  - The former County Clerk did not maintain sufficient documentation for payroll and operating expenditures. *we gave you our payroll book*
  - The former County Clerk was not sufficiently involved in the day-to-day operations of the office to identify significant departures from established procedures and to exercise adequate oversight of the office. *I did office work at my home. My doctors told me to stay out of the office due to*
- We recommend the County Clerk's office improve internal control procedures. We present the following suggestions for improvement.

- The County Clerk should recount and deposit cash daily. The County Clerk could document this control process by initialing the deposit ticket.
- The County Clerk should periodically compare a daily bank deposit to the daily checkout sheet and then compare the daily checkout sheet to the receipts ledger. Any differences should be reconciled. The County Clerk could document this by initialing the bank deposit ticket, daily checkout sheet, and receipts ledger.
- The County Clerk should document periodic comparisons of daily AVIS computer totals to receipts for usage tax, license fees, and tangible personal property taxes.
- The County Clerk should document the reconciliation of the bank balance to the general ledger.
- The County Clerk should regularly compare actual disbursements to the budget. Budget amendments should be obtained if necessary.
- The County Clerk should follow control procedures established by the county payroll ordinance. *The County (Piscataway) can not control our bank account*
- The County Clerk should periodically compare expenditures to invoice files to assure that invoice files contain sufficient documentation of operating expenditures.
- The County Clerk should cancel paid invoices to document payment.
- The County Clerk should be involved in the day-to-day operations of the office in order to be able to identify significant departures from established procedures and to exercise adequate oversight of the office.

Response or Additional Information: *We went over the deposits C-6 or had the deputy ✓ our work daily. There were days we were over and days we were under*  
 SOI: As Referenced

**Elliott County**  
**Reeda Ison, Former County Clerk**  
**Exit Conference**  
**For The Period January 1, 2009 through April 30, 2009**

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9. The Former County Clerk Should Have Prepared Delinquent Tax Reports

KRS 134.480(c) requires the county clerk pay to the taxing districts all moneys due the taxing districts. The former County Clerk collected delinquent taxes of \$256 during January 2009 and \$404 during March 2009. However, the former County Clerk did not prepare delinquent tax reports for these collections. Delinquent tax payments to the districts are based upon amounts reported on the delinquent tax reports. Since no delinquent tax reports were prepared, the former County Clerk failed to pay delinquent taxes to the districts. We did not determine the amount of delinquent taxes due the districts for these collections because no delinquent tax reports have been prepared. In the absence of delinquent tax reports, we have not booked a liability for amounts due the districts. Since the former County Clerk is no longer in office, the current County Clerk plans to prepare delinquent tax reports for January 2009 and March 2009 so that delinquent taxes can be paid to the taxing districts.

F-33, F-34, F-35

Response or Additional Information:

*We could not get March to come out and I had not completed it.*

10. The Former County Clerk Should Have Prepared And Submitted A Budget And Should Have Submitted Deputy Salaries For Fiscal Court Approval

The Department for Local Government (DLG) requires County Clerks to submit a budget for operating expenses and KRS 64.530 requires fiscal courts to approve salary limits for deputies of the County Clerks' offices. However, the former County Clerk did not prepare or submit a budget to DLG and did not submit deputies' salaries to the fiscal court for approval. In the absence of a budget, DLG and the fiscal court cannot monitor spending of the County Clerk's office to determine if spending is reasonable. The former County Clerk could have used a budget as a tool to monitor spending to help avoid having a deficit and to avoid paying County Clerk salary in excess of amounts allowed by law. By monitoring spending, the former County Clerk could have noted that some expenditures were not allowable. We recommend the County Clerk's office prepare and submit a budget and operate within approved budgets or obtain budget amendments as needed.

F-22, F-53

Response or Additional Information:

*I was late in preparing my Budget due to illness and Barry Black came over and said he was preparing the Budget which I never did see*

SOI: As Referenced



**Elliott County**  
**Reeda Ison, Former County Clerk**  
**Exit Conference**  
**For The Period January 1, 2009 through April 30, 2009**

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11. The Former County Clerk Should Have Properly Prepared Financial Reports

The Department for Local Government (DLG) requires each County Clerk to submit quarterly reports to DLG by the 30<sup>th</sup> day following the close of each quarter (April 30, July 30, October 30 and January 30). Failure to timely submit quarterly financial reports to DLG could result in a penalty being assessed against the County Clerk. The former County Clerk did not prepare or submit her 1<sup>st</sup> quarterly report to DLG. Furthermore, the former County Clerk did not prepare a financial statement summarizing transactions of her account for the period January 1 through April 30, 2009. We recommend the County Clerk's office take more care in preparing quarterly and annual reports and assure that reports are submitted in a timely manner.

(F-22)

Response or Additional Information:

*Due to illness I had not completed my quarterly,*

12. Does the former County Clerk have any knowledge of any events occurring subsequent to April 30, 2009 through the present day that may have a material effect on the financial statements?

Response or Additional Information:

*No*

13. ADDITIONAL COMMENTS/QUESTIONS:

SOI: As Referenced

**Elliott County**  
**Reeda Ison, Former County Clerk**  
**Exit Conference**  
**For The Period January 1, 2009 through April 30, 2009**

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ATTACHMENTS: Draft copies of Financial Statement and Deficit Statement

This audit will be issued as soon as internal review is completed. The APA staff will not contact any official after the date of this exit conference. If any actions occur after this exit conference date, which affect any audit findings, it is the responsibility of the official to provide that information to the APA. Please mail documentation to the following address:

Auditor of Public Accounts  
209 St. Clair Street  
Frankfort, Kentucky 40601-1871

If you have any questions or concerns regarding this audit, please feel free to contact  
at (502) 564-5841.

As County Clerk, I acknowledge receiving a copy of the exit conference and the  
attachments as listed above.

Former County Clerk:  Reeda Ison

Date: Aug 17, 2009

A copy of this exit conference has been mailed to the former County Clerk's attorney for  
discussion with the former County Clerk.

Auditor: \_\_\_\_\_

Date: 7/30/2009

Auditor: \_\_\_\_\_

Date: \_\_\_\_\_

